Uh Oh: Bad Customer Service Is Good For Banks

By Martha C. White | July 26, 2012
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Dick Bove is mad as hell, and he's not going to take it anymore. The banking analyst with Rochdale Securities used his most recent research note on Wells Fargo as a soapbox to blast the bank for its lousy customer service. He details a litany of weird fees, bureaucratic bungles and tone-deaf associates — familiar gripes for many big-bank customers. But then he says something as unexpected as it is disheartening. Bad service isn't hurting Wells Fargo's stock performance; in fact, it might even help. What's good for investors, it seems, is bad for customers.

"For the last 40 years I believed the quality of the product was the key determinant to the success of the company," he says. In banking, the "product" — ie. money — is a commodity, so the determining factor is the delivery method or service. So how is it that Wells Fargo, which Bove characterizes as "one of, if not the best-run bank in the United States" can thrive in spite of customer service?

"There's no evidence in the US banking system that offering a labor-intensive personalized service is successful in terms of letting the banking institutions survive. It's very costly w virtually no benefit," he says.

This is a depressing realization for customers, but there's one additional angle to consider: Maybe the definition of "good customer service" has shifted. Four decades ago, banks didn't have to pour resources into online banking, mobile apps, remote check deposit and a host of other technological advantages that a growing number of people are using, if not expecting from their bank.

The quote-unquote delivery system is no longer an employee standing at the door to a branch, greeting customers. It's a computer. Banks today are focusing more on giving customers fast, automated self-service they can get to anywhere and at any time while excellent face-to-face service dies on the vine.

So what prompted the shift? Well, there's the pace of change and all that, but there's something else, too: These electronic ties do a great job of tying you to the bank.

A new survey from Consumers Union finds that poor customer service is among the top three reasons people want to switch banks (fee increases are number one). But although roughly one in five people say they want to move to a different bank, more than half don't bother.

A study released in May by Consumers Union explored why this is the case. "Some bank policies are designed to make it challenging for customers to walk away," Consumers Union staff attorney Suzanne Martindale said in a statement. The group analyzed policies for closing accounts at the largest U.S. banks.

Among the deterrents it turned up: fees to close accounts or to transfer funds into a new account, requiring closures to take place in person, and the fact that it's incredibly difficult to track down the details of these policies. Researchers even got conflicting reports from different employees at the same bank.

Take Bove, for example. Although he shifted the bulk of his personal banking to JP Morgan Chase & Co. after getting fed up with Wells Fargo, he still has one account at that bank that he's not closing because he has automatic deposits and debits set up. "It's not easy to change a bank in today's environment," he said. "If you hook yourself up to a bank electronically, if you now decide to move to another bank, it becomes a real hassle."

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